

## SECOND DIVISION

[ G.R. NO. 125585, June 08, 2005 ]

**HEIRS OF EDUARDO MANLAPAT, REPRESENTED BY GLORIA MANLAPAT- BANAAG AND LEON M. BANAAG, JR., VS. HON. COURT OF APPEALS, RURAL BANK OF SAN PASCUAL, INC., AND JOSE B. SALAZAR, CONSUELO CRUZ AND ROSALINA CRUZ-BAUTISTA, AND THE REGISTER OF DEEDS OF MEYCAUAYAN, BULACAN, RESPONDENTS.**

### DECISION

**TINGA, J.:**

Before this Court is a Rule 45 petition assailing the *Decision*<sup>[1]</sup> dated 29 September 1994 of the Court of Appeals that reversed the *Decision*<sup>[2]</sup> dated 30 April 1991 of the Regional Trial Court (RTC) of Bulacan, Branch 6, Malolos. The trial court declared Transfer Certificates of Title (TCTs) No. T-9326-P(M) and No. T-9327-P(M) as void *ab initio* and ordered the restoration of Original Certificate of Title (OCT) No. P-153(M) in the name of Eduardo Manlapat (Eduardo), petitioners' predecessor-in-interest.

The controversy involves Lot No. 2204, a parcel of land with an area of 1,058 square meters, located at Panghulo, Obando, Bulacan. The property had been originally in the possession of Jose Alvarez, Eduardo's grandfather, until his demise in 1916. It remained unregistered until 8 October 1976 when OCT No. P-153(M) was issued in the name of Eduardo pursuant to a free patent issued in Eduardo's name<sup>[3]</sup> that was entered in the Registry of Deeds of Meycauayan, Bulacan.<sup>[4]</sup> The subject lot is adjacent to a fishpond owned by one

Ricardo Cruz (Ricardo), predecessor-in-interest of respondents Consuelo Cruz and Rosalina Cruz-Bautista (Cruzes).<sup>[5]</sup>

On 19 December 1954, before the subject lot was titled, Eduardo sold a portion thereof with an area of 553 square meters to Ricardo. The sale is evidenced by a deed of sale entitled "*Kasulatan ng Bilihang Tuluyan ng Lupang Walang Titulo (Kasulatan)*"<sup>[6]</sup> which was signed by Eduardo himself as vendor and his wife Engracia Aniceto with a certain Santiago Enriquez signing as witness. The deed was notarized by Notary Public Manolo Cruz.<sup>[7]</sup> On 4 April 1963, the *Kasulatan* was registered with the Register of Deeds of Bulacan.<sup>[8]</sup>

On 18 March 1981, another *Deed of Sale*<sup>[9]</sup> conveying another portion of the subject lot consisting of 50 square meters as right of way was executed by Eduardo in favor of Ricardo in order to reach the portion covered by the first sale executed in 1954 and to have access to his fishpond from the provincial road.<sup>[10]</sup> The deed was signed by Eduardo himself and his wife Engracia Aniceto, together with Eduardo

Manlapat, Jr. and Patricio Manlapat. The same was also duly notarized on 18 July 1981 by Notary Public Arsenio Guevarra.<sup>[11]</sup>

In December 1981, Leon Banaag, Jr. (Banaag), as attorney-in-fact of his father-in-law Eduardo, executed a mortgage with the Rural Bank of San Pascual, Obando Branch (RBSP), for P100,000.00 with the subject lot as collateral. Banaag deposited the owner's duplicate certificate of OCT No. P-153(M) with the bank.

On 31 August 1986, Ricardo died without learning of the prior issuance of OCT No. P-153(M) in the name of Eduardo.<sup>[12]</sup> His heirs, the Cruzes, were not immediately aware of the consummated sale between Eduardo and Ricardo.

Eduardo himself died on 4 April 1987. He was survived by his heirs, Engracia Aniceto, his spouse; and children, Patricio, Bonifacio, Eduardo, Corazon, Anselmo, Teresita and Gloria, all surnamed Manlapat.<sup>[13]</sup> Neither did the heirs of Eduardo (petitioners) inform the Cruzes of the prior sale in favor of their predecessor-in-interest, Ricardo. Yet subsequently, the Cruzes came to learn about the sale and the issuance of the OCT in the name of Eduardo.

Upon learning of their right to the subject lot, the Cruzes immediately tried to confront petitioners on the mortgage and obtain the surrender of the OCT. The Cruzes, however, were thwarted in their bid to see the heirs. On the advice of the Bureau of Lands, NCR Office, they brought the matter to the *barangay* captain of *Barangay* Panghulo, Obando, Bulacan. During the hearing, petitioners were informed that the Cruzes had a legal right to the property covered by OCT and needed the OCT for the purpose of securing a separate title to cover the interest of Ricardo. Petitioners, however, were unwilling to surrender the OCT.<sup>[14]</sup>

Having failed to physically obtain the title from petitioners, in July 1989, the Cruzes instead went to RBSP which had custody of the owner's duplicate certificate of the OCT, earlier surrendered as a consequence of the mortgage. Transacting with RBSP's manager, Jose Salazar (Salazar), the Cruzes sought to borrow the owner's duplicate certificate for the purpose of photocopying the same and thereafter showing a copy thereof to the Register of Deeds. Salazar allowed the Cruzes to bring the owner's duplicate certificate outside the bank premises when the latter showed the *Kasulatan*.<sup>[15]</sup> The Cruzes returned the owner's duplicate certificate on the same day after having copied the same. They then brought the copy of the OCT to Register of Deeds Jose Flores (Flores) of Meycauayan and showed the same to him to secure his legal opinion as to how the Cruzes could legally protect their interest in the property and register the same.<sup>[16]</sup> Flores suggested the preparation of a subdivision plan to be able to segregate the area purchased by Ricardo from Eduardo and have the same covered by a separate title.<sup>[17]</sup>

Thereafter, the Cruzes solicited the opinion of Ricardo Arandilla (Arandilla), Land Registration Officer, Director III, Legal Affairs Department, Land Registration Authority at Quezon City, who agreed with the advice given by Flores.<sup>[18]</sup> Relying on the suggestions of Flores and Arandilla, the Cruzes hired two geodetic engineers to prepare the corresponding subdivision plan. The subdivision plan was presented to the Land Management Bureau, Region III, and there it was approved by a certain Mr. Pambid of said office on 21 July 1989.

After securing the approval of the subdivision plan, the Cruzes went back to RBSP and again asked for the owner's duplicate certificate from Salazar. The Cruzes informed him that the presentation of the owner's duplicate certificate was necessary, per advise of the Register of Deeds, for the cancellation of the OCT and the issuance in lieu thereof of two separate titles in the names of Ricardo and Eduardo in accordance with the approved subdivision plan.<sup>[19]</sup> Before giving the owner's duplicate certificate, Salazar required the Cruzes to see Atty. Renato Santiago (Atty. Santiago), legal counsel of RBSP, to secure from the latter a clearance to borrow the title. Atty. Santiago would give the clearance on the condition that only Cruzes put up a substitute collateral, which they did.<sup>[20]</sup> As a result, the Cruzes got hold again of the owner's duplicate certificate.

After the Cruzes presented the owner's duplicate certificate, along with the deeds of sale and the subdivision plan, the Register of Deeds cancelled the OCT and issued in lieu thereof TCT No. T-9326-P(M) covering 603 square meters of Lot No. 2204 in the name of Ricardo and TCT No. T-9327-P(M) covering the remaining 455 square meters in the name of Eduardo.<sup>[21]</sup>

On 9 August 1989, the Cruzes went back to the bank and surrendered to Salazar TCT No. 9327-P(M) in the name of Eduardo and retrieved the title they had earlier given as substitute collateral. After securing the new separate titles, the Cruzes furnished petitioners with a copy of TCT No. 9327-P(M) through the *barangay* captain and paid the real property tax for 1989.<sup>[22]</sup>

The Cruzes also sent a formal letter to Guillermo Reyes, Jr., Director, Supervision Sector, Department III of the Central Bank of the Philippines, inquiring whether they committed any violation of existing bank laws under the circumstances. A certain Zosimo Topacio, Jr. of the Supervision Sector sent a reply letter advising the Cruzes, since the matter is between them and the bank, to get in touch with the bank for the final settlement of the case.<sup>[23]</sup>

In October of 1989, Banaag went to RBSP, intending to tender full payment of the mortgage obligation. It was only then that he learned of the dealings of the Cruzes with the bank which eventually led to the subdivision of the subject lot and the issuance of two separate titles thereon. In exchange for the full payment of the loan, RBSP tried to persuade petitioners to accept TCT No. T-9327-P(M) in the name of Eduardo.<sup>[24]</sup>

As a result, three (3) cases were lodged, later consolidated, with the trial court, all involving the issuance of the TCTs, to wit:

(1) Civil Case No. 650-M-89, for reconveyance with damages filed by the heirs of Eduardo Manlapat against Consuelo Cruz, Rosalina Cruz-Bautista, Rural Bank of San Pascual, Jose Salazar and Jose Flores, in his capacity as Deputy Registrar, Meycauayan Branch of the Registry of Deeds of Bulacan;

(2) Civil Case No. 141-M-90 for damages filed by Jose Salazar against Consuelo Cruz, et. [sic] al.; and

(3) Civil Case No. 644-M-89, for declaration of nullity of title with damages filed by Rural Bank of San Pascual, Inc. against the spouses Ricardo Cruz and Consuelo Cruz, et al. [25]

After trial of the consolidated cases, the RTC of Malolos rendered a decision in favor of the heirs of Eduardo, the dispositive portion of which reads:

WHEREFORE, premised from the foregoing, judgment is hereby rendered:

1.-Declaring Transfer Certificates of Title Nos. T-9326-P(M) and T-9327-P(M) as void *ab initio* and ordering the Register of Deeds, Meycauayan Branch to cancel said titles and to restore Original Certificate of Title No. P-153(M) in the name of plaintiffs' predecessor-in-interest Eduardo Manlapat;

2.-Ordering the defendants Rural Bank of San Pascual, Jose Salazar, Consuelo Cruz and Rosalina Cruz-Bautista, to pay the plaintiffs Heirs of Eduardo Manlapat, jointly and severally, the following:

- a)P200,000.00 as moral damages;
- b)P50,000.00 as exemplary damages;
- c)P20,000.00 as attorney's fees; and
- d)the costs of the suit.

3.-Dismissing the counterclaims.

SO ORDERED." [26]

The trial court found that petitioners were entitled to the reliefs of reconveyance and damages. On this matter, it ruled that petitioners were *bona fide* mortgagors of an unclouded title bearing no annotation of any lien and/or encumbrance. This fact, according to the trial court, was confirmed by the bank when it accepted the mortgage unconditionally on 25 November 1981. It found that petitioners were complacent and unperturbed, believing that the title to their property, while serving as security for a loan, was safely vaulted in the impermeable confines of RBSP. To their surprise and prejudice, said title was subdivided into two portions, leaving them a portion of 455 square meters from the original total area of 1,058 square meters, all because of the fraudulent and negligent acts of respondents and RBSP. The trial court ratiocinated that even assuming that a portion of the subject lot was sold by Eduardo to Ricardo, petitioners were still not privy to the transaction between the bank and the Cruzes which eventually led to the subdivision of the OCT into TCTs No. T-9326-P(M) and No. T-9327-P(M), clearly to the damage and prejudice of petitioners. [27]

Concerning the claims for damages, the trial court found the same to be bereft of merit. It ruled that although the act of the Cruzes could be deemed fraudulent, still it would not constitute intrinsic fraud. Salazar, nonetheless, was clearly guilty of negligence in letting the Cruzes borrow the owner's duplicate certificate of the OCT. Neither the bank nor its manager had business entrusting to strangers titles mortgaged to it by other persons for whatever reason. It was a clear violation of the mortgage and banking laws, the trial court concluded.

The trial court also ruled that although Salazar was personally responsible for allowing the title to be borrowed, the bank could not escape liability for it was guilty of contributory negligence. The evidence showed that RBSP's legal counsel was sought for advice regarding respondents' request. This could only mean that RBSP through its lawyer if not through its manager had known in advance of the Cruzes' intention and still it did nothing to prevent the eventuality. Salazar was not even summarily dismissed by the bank if he was indeed the sole person to blame. Hence, the bank's claim for damages must necessarily fail.<sup>[28]</sup>

The trial court granted the prayer for the annulment of the TCTs as a necessary consequence of its declaration that reconveyance was in order. As to Flores, his work being ministerial as Deputy Register of the Bulacan Registry of Deeds, the trial court absolved him of any liability with a stern warning that he should deal with his future transactions more carefully and in the strictest sense as a responsible government official.<sup>[29]</sup>

Aggrieved by the decision of the trial court, RBSP, Salazar and the Cruzes appealed to the Court of Appeals. The appellate court, however, reversed the decision of the RTC. The decretal text of the decision reads:

THE FOREGOING CONSIDERED, the appealed decision is hereby reversed and set aside, with costs against the appellees.

SO ORDERED.<sup>[30]</sup>

The appellate court ruled that petitioners were not *bona fide* mortgagors since as early as 1954 or before the 1981 mortgage, Eduardo already sold to Ricardo a portion of the subject lot with an area of 553 square meters. This fact, the Court of Appeals noted, is even supported by a document of sale signed by Eduardo Jr. and Engracia Aniceto, the surviving spouse of Eduardo, and registered with the Register of Deeds of Bulacan. The appellate court also found that on 18 March 1981, for the second time, Eduardo sold to Ricardo a separate area containing 50 square meters, as a road right-of-way.<sup>[31]</sup> Clearly, the OCT was issued only after the first sale. It also noted that the title was given to the Cruzes by RBSP voluntarily, with knowledge even of the bank's counsel.<sup>[32]</sup> Hence, the imposition of damages cannot be justified, the Cruzes themselves being the owners of the property. Certainly, Eduardo misled the bank into accepting the entire area as a collateral since the 603-square meter portion did not anymore belong to him. The appellate court, however, concluded that there was no conspiracy between the bank and Salazar.<sup>[33]</sup>

Hence, this petition for review on certiorari.

Petitioners ascribe errors to the appellate court by asking the following questions, to wit: (a) can a mortgagor be compelled to receive from the mortgagee a smaller portion of the originally encumbered title partitioned during the subsistence of the mortgage, without the knowledge of, or authority derived from, the registered owner; (b) can the mortgagee question the veracity of the registered title of the mortgagor, as noted in the owner's duplicate certificate, and thus, deliver the certificate to such third persons, invoking an adverse, prior, and unregistered claim against the registered title of the mortgagor; (c) can an adverse prior claim against a registered title be noted, registered and entered without a competent court order;